

# Kosmas Helps Pass Bill to Keep Families in Their Homes

## Bill Includes Carefully Crafted Provision to Allow Bankruptcy as a Last Resort to Avoid Foreclosure

(Washington, DC) – Today, Congresswoman Suzanne Kosmas (FL-24) voted in favor of H.R. 1106, the Helping Families Save Their Homes Act, which passed the House by a vote of 234-191. Florida has been hit especially hard by foreclosures and more than 400,000 new foreclosures are expected for 2009 if no action is taken.

The Helping Families Save Their Homes Act is a first step towards protecting thousands of Florida homeowners. The bill provides incentives to encourage lenders to negotiate affordable mortgages, fixes the Hope for Homeowners program designed to spur the refinancing of mortgages, and allows bankruptcy judges to modify mortgage terms on primary residences for homeowners who have exhausted all other options.

“Central Florida’s foreclosure crisis is getting worse every day and it is important to take action now,” said Congresswoman Kosmas. “This bill allows working families to renegotiate their mortgages on primary residences before it is too late and they lose their homes. Though it will not completely solve our foreclosure crisis, the Helping Families Save Their Homes Act provides common-sense solutions that will help thousands of families stay in their homes and preserve property values in neighborhoods throughout Florida.”

Congresswoman Kosmas worked with her colleagues in the fiscally responsible New Democrats Coalition to carefully craft the bankruptcy provisions of the Helping Families Save Their Homes Act in order to prevent abuse and to ensure that families are not being pushed into bankruptcy. Banks and homeowners must first work in good faith to craft a loan modification before bankruptcy can be considered. The discretion of bankruptcy judges is narrowly defined for the few instances where bankruptcy might occur and judges will be required to consider interest rate reductions that would significantly lower monthly mortgage payments before considering a principal reduction.

“We need to help working families avoid bankruptcy, not push them into it,” said Kosmas. “The measures that I fought to include in this bill will help hard-working Floridians pay their mortgages and keep their homes while ensuring that bankruptcy is only a last resort.”

The bill is supported by Citigroup, AARP, Center for Responsible Lending, Consumers Union, Attorneys General of 21 states, Leadership Conference on Civil Rights, National Federation of Community Development Credit Unions, and National Fair Housing Alliance.

Below is additional information on the Helping Families Save Their Homes Act

## Incentives for Negotiating Affordable Home Loans

- Fixes to the FHA's Hope for Homeowners program enacted as part of the comprehensive housing reform legislation from last summer:

- Lower fees paid by borrowers and lenders.
- Provide \$1,000 payments to servicers for each successful refinance of existing loans.
- Provides mortgage servicers with clarity and certainty for their actions, and protection from lawsuits for specified loan modifications. Mortgage servicers are concerned about the threat of investor lawsuits if they help families in danger of losing their homes with loan modifications.
- Helps veterans and other homeowners to avoid foreclosure by allowing the Department of Veterans Affairs, the Federal Housing Administration, and U.S. Department of Agriculture to guarantee and/or insure mortgage loans modified either out of court or in a bankruptcy case. This will provide financial incentives for lenders to voluntarily modify mortgage loans in lieu of foreclosure.
- Expands the FHA's mortgage loan modification abilities to keep more people in their homes and thereby reduce foreclosures by allowing a reduction of interest payments of up to 30 percent of the outstanding loan balance.
- Prevents predatory lenders from being approved as lenders under the FHA programs.

#### Protecting Consumers's Savings in Community Banks and Credit Unions

- Makes permanent an increase, from \$100,000 to \$250,000, in the amount insured by regulators for each account held by a consumer at a bank or credit union, and increases these regulators's authority to obtain additional liquidity from the US Treasury.

#### Bankruptcy Provisions to Spur Refinancing to Affordable Home Loans

- Reduces home foreclosures by an estimated 20 percent (according to a study by Credit Suisse) -- by giving bankruptcy judges the ability to modify certain mortgage loans on a homeowner's principal residence in order to establish an affordable mortgage plan for homeowners so they can continue making payments.
- Permits a reduction of principal, allows the repayment period to be extended, or authorizes an exorbitant interest rate -- including those from adjustable rate mortgages or predatory loans -- to be reduced to a level that will keep the mortgage affordable over the long-term. Requires courts to consider the Administration's debt-to-income and interest rate limits in determining how to modify the mortgage
- Applies only to existing mortgages, and would not apply to future mortgages, so that bankruptcy judges can modify mortgages when families exhaust other options.
- Homeowners must show good faith, have taken steps to get a loan modification outside of bankruptcy, and share the increase in property value with the lender for five years.
- Requires homeowners facing foreclosure to call lenders 30 days prior to applying for judicial modification, to provide information to the lender for a loan modification offered by the lender before these homeowners can apply for judicial modification.
- Ensures that a judge consider whether a loan modification was offered prior to coming to court.
- Prohibits a borrower who can afford their mortgage or a borrower convicted of mortgage fraud from modifying his or her mortgage under this legislation.

- Those going through bankruptcy must live under the supervision of a trustee and a judge, and under the observation of creditors for up to five years, and bankruptcy can remain on credit reports for up to 10 years.
- The bill does not let homeowners escape from their financial obligations; the court can reduce the mortgage only to the current fair market value of the house. The bankruptcy court will structure payments requiring families to pay their mortgages to the greatest extent that they are able in equal monthly payments.
- Investors who own two, three or four homes are permitted to restructure their loans in bankruptcy, under current law. This should be the rule for ordinary homeowners, as a last resort alternative to foreclosure.
- The bill would NOT rewrite the 2005 Bankruptcy Code amendments. The current legal prohibition on modifying primary mortgages dates back to 1978 when most mortgages were 30-year fixed rate loans owned by local banks rather than the rapidly changing adjustable rate mortgages that have been originated and sold to investors widely in recent years.

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